

**DEPARTMENT OF JUVENILE JUSTICE
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Juvenile Justice for the year ended June 30, 2001 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- no instances of non-compliance that are required to be reported; and
- inadequate implementation of corrective action with respect to the prior audit findings “Improve Controls over Equipment”, “Improve Controls over Leases”, and “Improve Child Support Collection Procedures.”

Overall, there are several recurring issues that contributed to the internal control findings discussed in this report. The Department needs to establish and enforce appropriate operating policies and procedures. Most policies are and have been in draft form for at least two years. The lack of approved policies combined with inadequate coordination and communication between the central office, court service units, and correctional centers has resulted in several internal control weaknesses and contributed to inefficient operations. We discuss the individual audit findings in the section entitled “Internal Control Findings and Recommendations.”

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May 13, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Juvenile Justice** for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from the prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances - Revenues, Expenditures, Petty Cash, Leases, and Fixed Assets.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material aspects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Department's records.

We noted certain matters involving internal control and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial records. Reportable conditions are discussed in the section entitled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported findings "Improve Controls Over Equipment", "Improve Controls over Leases", and "Improve Child Support Collection Procedures." Accordingly, we included these findings in the section entitled "Internal Control Findings and Recommendations."

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 19, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Overall, there are several recurring issues that contributed to the internal control findings below. The Department needs to establish and enforce appropriate operating policies and procedures. Most policies are and have been in draft form for at least two years. The lack of approved policies combined with inadequate coordination and communication between the central office, court service units, and correctional centers has resulted in several internal control weaknesses and contributed to inefficient operations. Finally, the Department needs to hold employees accountable for adherence to policies and procedures. Below are our specific findings and recommendations.

Improve Controls over Equipment

The Department needs to improve its procedures over equipment and assets. Current policies and procedures do not clearly state the responsibilities of the central office and field units regarding fixed asset accounting. Without specific procedures, staff cannot accurately perform their duties, which increases the possibility of misstating information in the Fixed Asset Accounting and Control System (FAACS). We have found fixed asset accounting issues at each facility selected for testing for the last three years, which indicates that central office must have more communication and training on this matter. The following specific errors in FAACS information arose in the facilities selected for review this year.

Bon Air

- Thirty assets totaling \$294,284 were recorded as buildings instead of improvements.
- Two assets listed as sold were still at the facility.
- One asset totaling \$5,000 was not properly removed from FAACS.
- One asset was not capitalized at the correct amount. It did not include all reasonable and necessary costs to put the asset in production.

Beaumont

- An excessive amount of surplus items were observed.
- One asset totaling \$7,992 was not properly recorded in FAACS.
- Five buildings were duplicated in FAACS. They were entered individually totaling \$388,165 and then again as one unit totaling \$474,172.
- One asset's acquisition date was incorrectly recorded in FAACS resulting in a miscalculation of accumulated depreciation.

Barrett

- One asset totaling \$5,200 was not properly removed from FAACS.

RDC

- One asset was not properly tagged.

In addition, the following issues also came to our attention.

- A purchase of land and buildings was not properly recorded in FAACS totaling \$760,000.
- There is not a centrally established policy for control and inventory procedures for controllable assets, those with a value of less than \$5,000.
- There are not consistent policies over cell phone usage. Field units allow the personal use of cell phones with the assumption that the Department would be

reimbursed for such use. The central office allows personal use of cell phones only in emergency situations. We reviewed three correctional center wireless phone bills and noted that it appeared that over 50 percent of the bill may have been for personal use. We saw no indication that these bills were reviewed or that the Department was reimbursed for this personal use of cell phones.

The Department hired a new fixed assets coordinator in January 2002, who has begun addressing some of these issues. The coordinator has started drafting new procedures and plans to provide training to correctional centers. The Department has already identified many of the exceptions noted and has created a corrective action plan to address similar issues. We recommend the Department continue with its efforts to improve policies and procedures for recording fixed assets. The procedures should include performing periodic financial analysis to identify potential fixed assets and ensure they are recorded when acquired, performing a comprehensive inventory at least once every two years, and reviewing FAACS reports timely for accuracy and completeness.

Improve Controls over Leases

As reported in our prior report, the Department's procedures are not adequate to ensure that information in the Lease Accounting System (LAS) is accurate and reliable. The Department has not established adequate policies and procedures between the central office and field units to ensure all leases are properly reported.

We found several instances where information in LAS was not complete or accurate. Our review of six expenditure transactions showed three lease transactions that were not entered in LAS and two were not properly recorded in LAS. We selected an additional sample of leases recorded in LAS and reviewed these to determine whether the leases were properly classified as capital or operating leases. We were unable to determine proper classification because the Department did not maintain documentation to support the lease classification. Furthermore, there is a large discrepancy between lease payments in LAS and lease payments in the accounting system. The discrepancies between LAS and the accounting system further indicate that LAS information is not accurate or complete.

The Department hired a new LAS coordinator in January 2002, who is working to review and update LAS information. The new coordinator has been working with the field units as part of this initiative and has identified at least 80 active leases that have not been reported in LAS. As part of this initiative, the Department should review current policies and procedures and modify as needed. These procedures should clearly assign responsibilities to the central office as well as the field units. We also recommend the central office provide training to the field units on lease accounting procedures.

Improve Commonwealth Accounting and Reporting System Access

The Department should strengthen access controls over the Commonwealth Accounting and Reporting System (CARS). During fiscal year 2001, there were 514 instances where the same employee entered an invoice and approved its release for payment. We also found two instances in which the Department did not delete CARS access timely after an employee terminated employment. Finally, one employee had the capability to enter and approve data in CARS; however, he could not approve expenses for payment. The lack of adequate access controls could result in the processing of unauthorized transactions.

The Department must strengthen their CARS access controls to ensure the integrity of accounting transactions processed in CARS. We recommend the Department adopt and follow procedures, which require

a separation of duties between the entering and approving of CARS information, especially payments. We understand there may be a few field units where the staffing level will not support the appropriate separation of duties. In these instances, we recommend the Department implement alternative review procedures to ensure that unauthorized transactions have not occurred. We believe the staffing level in the central office as well as most field units is sufficient to allow for an adequate separation of these duties. In addition, we recommend the Department review and evaluate its access procedures in its new financial system. As the Department implements Oracle financials, the Department should review their procedures to ensure the appropriate separation of duties for entering and approving transactions in Oracle.

Improve Internal Controls over Payroll

We found several internal control weaknesses in personnel and benefits accounting, some of which resulted in various overpayments. The specific findings are as follows:

- For a sample of 25 employees tested, we identified two employees who were underpaid Virginia Short-term Disability Program (VSDP) benefits totaling \$648 and three employees were overpaid a total of \$5,934. There were also misclassifications for 13 employees, resulting in \$30,736 recorded as regular pay instead of VSDP benefits. We were unable to determine whether the Department was solely responsible for these errors, or whether the employee or CORE, the state's program administrator, may have contributed to the errors.
- The Department did not properly maintain access to the Benefits Eligibility System (BES). Two employees continued to have access to the system although they no longer needed it to perform their job responsibilities.
- A field unit did not notify central office of an employee's termination resulting in an overpayment in wages totaling \$3,340. The agency has not yet collected this overpayment.
- The Department incorrectly reported leave liability for 3 of 14 employees selected for testing resulting in misstatement of the year-end leave liability reported to the Department of Accounts.

The Department should improve its policies and procedures to ensure employees receive the correct VSDP benefits. The Department should limit BES access to employees needing it to perform their job responsibilities. The Department should make field units accountable for untimely notification of terminated employees. The Department should ensure the leave liability schedule is accurate and complete. Finally, the Department should consolidate the payment of leave balances into one check and note balances paid for each leave type.

Adequately Perform System Reconciliations

The Department does not have documentation showing that staff properly performed reconciliations of the Commonwealth Accounting and Reporting System (CARS) or the Fixed Asset Accounting and Control System (FAACS). Based on information provided, it does not appear that the Department did reconcile balances from the agency records to CARS or FAACS.

An essential internal control is a supervisory review of the reconciliations to monitor not only the correctness and accuracy of the financial information, but also review the performance of staff preparing information. The Department needs to ensure procedures are in place to adequately perform and document the reconciliation as well as a supervisory review of the reconciliation.

Follow Procedures over Small Purchase Charge Card

Department staff are not following internal policies and procedures regarding the use of the Small Purchase Charge Card (SPCC). We found the following instances where cardholders did not follow SPCC policies and supervisors did not inform the cardholders to make changes to comply with the Department's policies and procedures.

- There were repeat instances of purchases made by individuals other than the authorized users. Only the individual whose name is on the card has the authority to make purchases. The cardholder should not loan the card to another person. If a cardholder knowingly allows another person to use the card, the Supervisor should revoke the named cardholder's privileges.
- Cardholders could not provide supporting documentation for purchases in several instances. Department procedures require the cardholder to maintain documentation supporting purchases for five years.
- We found numerous instances where card purchases included sales taxes. The Commonwealth is exempt from sales taxes. Cardholders should ensure all purchases with the card exclude taxes.

Department supervisors should ensure cardholders follow SPCC policies and procedures by reviewing cardholder logs and other documentation.

Improve Capital Outlay Planning

The Department needs to improve its capital outlay project planning. The Department hired a contractor to complete the six-year capital project plan and budget for the period of 2002-2008, because it lacked the resources to prepare one. Although the Department and the contractor agreed to re-evaluate the plan annually, it does not appear the Department has done an adequate review of the plans. The amount requested to fund capital projects in the six-year plan totaled over \$126 million; however, the total cost of the individual projects included in the plan totaled over \$132 million.

Also, the Department's plan for the 2002-2004 biennium still includes building a new facility even though the current facilities are not operating at capacity and the official population forecasts show the juvenile population remaining stable over the next few years. In addition, there are no funds included in the Department's budget for the facility during this period. We recommend the Department follow internal procedures and ensure the capital project plan is updated annually.

Improve Child Support Collection Procedures

The Department needs to improve its procedures for the collection of child support payments for juveniles in state custody. When a court commits a juvenile to state custody, the court may order the responsible parent to pay child support payment to the Department. The Department may receive child

support payments either from the parent directly or through the Department of Social Services' Division of Child Support Enforcement. The Department deposits the payments and uses them to offset the state's costs of holding the juveniles in state custody. The Department collected child support payments of \$60,742 in fiscal year 2001. The Department needs to work with the local courts and the Department of Social Services (DSS) to address several issues.

The Department has not established a policy to research and pursue child support orders. DSS enforces and collects some child support orders; however, there is no coordinated effort between the two departments to ensure child support payments. As a result, there is not reassignment of payment from the custodial parent to the Department when a juvenile comes into state custody. For fiscal year 2001, the average cost for housing and educating a juvenile was over \$78,000 and the Department could have recovered some costs through this offset program.

On the other hand, we found instances where the Department continued to receive payment years after the juvenile's release. We noted instances where the Department continued to receive payments for wards paroled as far back as 1997. Upon parole, these payments should go to the custodial parent. Effective December 2001, the Department implemented a procedure to review the Juvenile Tracking System and determine whether the juvenile remained in state custody before depositing the funds. Since December 2001, payments received for paroled juveniles go to DSS. Finally, the Department receives payments that they cannot associate with a juvenile. The Department continues to collect and deposit these funds without investigating why they are receiving the funds.

The Department should work with the local courts and the Department of Social Services to at least pursue and collect child support payments for pre-established orders. In the future, the Department should attempt to return payments collected subsequent to the juveniles release from state custody. Payments received, but not traced to a juvenile should go to the Department of Treasury's Unclaimed Property Unit.

AGENCY INFORMATION

The Department provides custody and care for juveniles in the correctional system. The Department has a central office in Richmond and three regional offices. The central office provides administrative support while the regional offices oversee court service units. The Department also assists in funding the following facilities and programs.

- Seven juvenile correctional centers (JCC) provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- A Reception and Diagnostic Center provides psychological, educational, social, and medical evaluations for committed youth.
- Thirty-five Juvenile and Domestic Relations Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- One privately operated boot camp provides a 5 to 10 month program that consists of 4 months residential treatment and 6 months of aftercare in the community.
- Four halfway houses provide 24-hour residential and treatment services for youth returning to their communities. The Department operates three of the houses with the other privately operated.
- Twenty-one secure detention homes provide temporary care of juveniles who require secure custody pending court disposition or placement. The Department operates one home and the remaining homes are under local administration.
- Forty-four Offices on Youth Services, and various residential and non-residential programs administered by localities.

A juvenile's first encounter with the system is an intake officer at a court service unit after police, victims or parents have reported a delinquent or status offense. The intake officer has discretionary power to divert cases from the judicial process. The officer could resolve the case through counseling, referral to other social agencies, or community service. If the decision is filing the charges with the court, the intake officer makes the initial decision about where the child will reside pending judicial proceedings. Many juveniles return to parents or guardians, but others remain in a secure detention facility or a shelter.

If the juvenile is found guilty at the adjudication hearing, there is a social investigation to assist the court in selecting the most appropriate dispositional sanctions and services for the juvenile and the family. The juvenile may receive conditional dispositions such as probation, participation in court service unit programs, referral to local services or facilities, referral to other agencies, private placement, or boot camp placement. The juvenile could also receive custodial commitment to state care. State care includes an initial evaluation at the Reception and Diagnostic Center and placement at one of the seven correctional facilities.

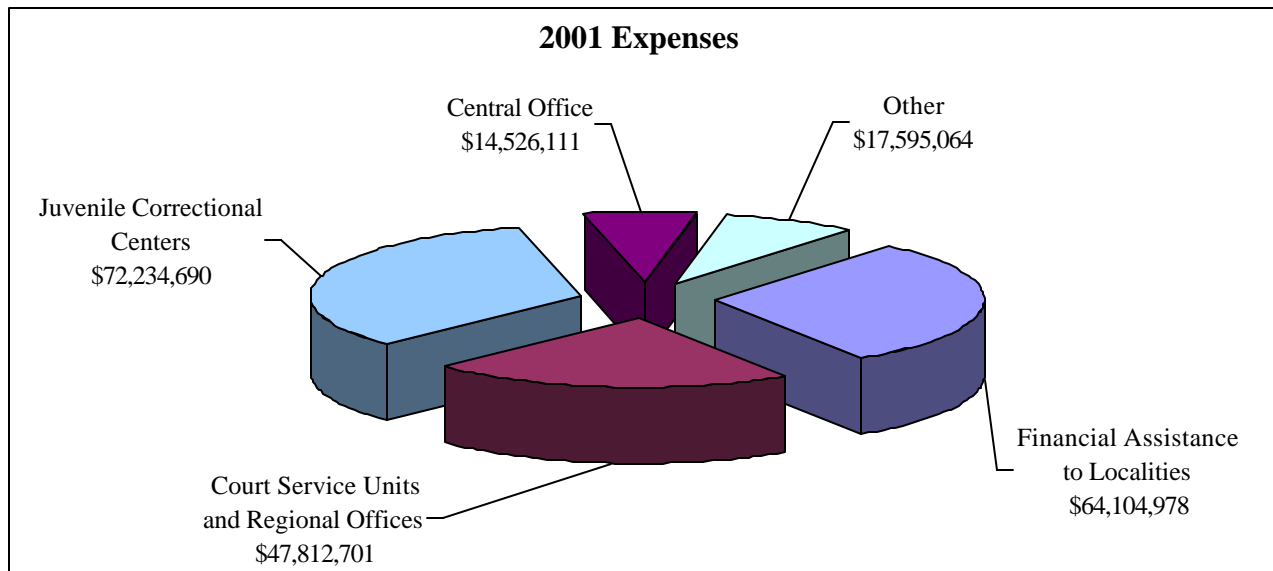
The Department's main funding source is general fund appropriations. General fund appropriations of \$240 million accounted for almost 97 percent of the Department's revenue in fiscal 2001. The Department also receives federal grants and some miscellaneous revenues. The following table shows general fund original and adjusted appropriations, as well as expenses for the last four fiscal years. The Department also receives capital project appropriations, which the chart does not include.

	1998	1999	2000	2001
Original appropriations	\$171,889,593	\$183,157,143	\$185,022,421	\$227,159,642
Adjusted appropriations	\$191,471,329	\$211,115,234	\$214,449,475	\$240,484,967
Total expenses	\$166,997,753	\$192,681,608	\$201,596,741	\$216,273,544

Source: Commonwealth Accounting and Reporting System

Over the last four years, the Department's operating expenses have increased by almost \$50 million representing a 31 percent increase. Most of this increase comes from increased costs of operating JCCs as the Department adds new facilities and programs; and increased assistance to localities to fund the Virginia Juvenile Community Crime Control Act (VJCCCA). In each of the last four years, operating appropriations have exceeded expenses resulting in carry forward balances. Most of these balances represent the Commonwealth's share of local facility construction projects, which may span several years. The Commonwealth typically appropriates these funds in the first year of the project; although the locality does not receive payment until the project's completion, which may take several years.

Most of the Department's expenses are in one of three areas – juvenile correctional centers, financial assistance to localities for the VJCCCA, and court services units. The following chart shows 2001 general fund expenses by area. In addition, we discuss these three major areas in more detail below.



Juvenile Correctional Centers and Regional Diagnostic Center

The Department operates seven correctional centers and a reception and diagnostic center for juveniles committed to state care. These facilities provide programs to address the treatment, disciplinary, medical, educational, and recreational needs of the juveniles. Over the last four years, the Department has increased JCC capacity by 20 percent through the expansion and renovation of existing facilities, and construction of a new facility, Culpeper Correctional Center. The increase in capacity alleviated overcrowding at some facilities and to address expected increases in the state-committed juvenile population. Admissions peaked in 1995 at over 1,800 and have decreased each year since then with the Department estimating annual admissions of approximately 1,300 over the next few years.

The following table shows admissions, capacity, population, and cost information over the last four years for the juvenile correctional centers. The annual cost per ward does not include costs incurred by the Department of Correctional Education for providing education for the juveniles. These education costs were approximately \$18,000 per juvenile in fiscal year 2001. As shown below, the JCC capacity has increased 20 percent since 1998 while the annual cost per ward has increased by 45 percent.

	1998	1999	2000	2001
Admissions	1,681	1,579	1,458	1,261
Capacity	1,177	1,243	1,402	1,402
Average daily population	1,207	1,278	1,322	1,171
Annual cost per ward*	\$ 41,571	\$ 44,432	\$ 50,349	\$ 60,114

Source: FY 2001 Per Capita Report prepared by the Department

Overall, as shown in the table, the correctional centers operated under capacity in fiscal year 2001. Culpeper Correctional Center is still not operating at full capacity since it opened in March 1999. The Department is also currently renovating several existing facilities. The Department has closed two cottages at the Hanover Correctional Facility and plans to begin renovation of several cottages in September 2001. The Department also plans to renovate several cottages and build a new dining facility at Beaumont Correctional Center.

The following tables include capacity and cost information for each juvenile correction center. Personnel costs represent a significant portion of each center's operating expenses. The Department also operates a behavioral science unit, infirmary, and maintenance department, which benefit all the correctional centers. The Department allocates these costs to the various centers based on the average daily population.

	Barrett Correctional Center	Beaumont Correctional Center	Bon Air Correctional Center	Hanover Correctional Center
Programs available*	SA	AM, SO, SA	AM, SO, SA, ISP	AM, SO, SA
Average daily population	101	290	256	167
Capacity	98	322	280	200
<u>Juvenile Correctional Center</u>				
<u>Expenses:</u>				
Correctional center operating expenses	\$6,147,758	\$15,906,633	\$11,499,361	\$8,163,994
Behavioral services unit, infirmary, and maintenance	545,975	1,567,660	1,383,896	902,742
Total expenses	\$6,693,733	\$17,474,293	\$12,883,257	\$9,066,736
<u>Per Capita Expenses:</u>				
Annual cost per juvenile	\$66,275	\$60,256	\$50,325	\$54,292
Daily cost per juvenile	\$182	\$165	\$138	\$149

	Natural Bridge Correctional Center	Oak Ridge Correctional Center	Culpeper Correctional Center	Reception and Diagnostic Center
Programs available*	AM, SA, ILP	AM, SA, SO, BP	AM, SO, SA, ILP	Juvenile Overall Evaluation
Average daily population	61	38	102	156
Capacity	71	40	225	166
<u>Juvenile Correctional Center</u>				
<u>Expenses:</u>				
Correctional center operating expenses	\$4,085,865	\$2,736,273	\$8,163,479	\$7,359,628
Behavioral services unit, infirmary, and maintenance	329,737	205,413	551,419	843,302
Total expenses	\$4,415,602	\$2,941,686	\$8,714,898	\$8,202,930
<u>Per Capita Expenses:</u>				
Annual cost per juvenile	\$72,387	\$77,413	\$85,440	\$52,583
Daily cost per juvenile	\$198	\$212	\$234	\$144

Source: Commonwealth Accounting and Reporting System
Fiscal Year 2001 Per Capita Report prepared by the Department

*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program

Financial Assistance to Localities

The Department makes payments to localities for the construction, maintenance, and operation of local or regional detention centers, group homes, and numerous other related facilities. These facilities house juveniles who are awaiting sentencing or provide housing for juveniles who require a less secure environment. There are 20 local detention centers statewide, which can house over 950 juveniles. The Department also funds various group homes and day centers, which also house delinquent juveniles. Localities request funds from the Department and the Board approves these requests. These payments come almost entirely from general fund appropriations, in the form of block grants and VJCCCA funds. For fiscal year 2001, approximately 30 percent of the Department's funds went to localities.

Court Service Units

The Department has 35 Court Service Units (CSUs) located throughout the state. The CSUs coordinate services for juveniles in the court system. They provide a variety of services including intake services, domestic relations, investigations, probation services, and counseling. During fiscal 2001, CSUs processed over 203,000 complaints involving juveniles. Annually, the CSUs also supervise thousands of juveniles, most of whom are on probation or parole.

Systems Initiative

The Department began implementing a new financial system, Oracle financials, in May 2001. The Department began using the accounts payable, purchasing, and general ledger modules, but experienced many problems during the implementation. These implementation problems with Oracle have significantly affected the Department's ability to comply with the Prompt Payment requirements in fiscal year 2001 and into 2002. Shortly after agency-wide implementation, the Department drastically scaled back the use of Oracle until it could resolve these problems. As of March 2002, the Department uses Oracle only to process central office transactions.

The Department is working to resolve the issues with the new system implementation. The Department plans to upgrade to a new version of Oracle and they anticipate that the new version will alleviate many of previous mentioned problems. The Department plans to resolve all the issues with the system and provide training before the field units can resume use of it. The Department does not have a target date set for full implementation of the new financial system.